

FISCAL NOTE

Bill #: HB0582

Title: Generally revise income taxes based on federal taxable income

Primary

Sponsor: Bob Story

Status: As introduced

Sponsor signature	Date	Dave Lewis, Budget Director	Date
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Fiscal Summary

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
Expenditures:		
General Fund	\$175,000	(\$193,000)
Revenue:		
General Fund	215,049	753,111
State Special Revenue	13,582	42,550
Net Impact on General Fund Balance:	\$40,049	\$946,111

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
X		Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

Individual Income Tax

1. This proposal applies to tax years beginning after December 31, 1999 (tax year 2000). There is no revenue impact from this proposal in FY2000.
2. Under this proposal, the state tax liability for individual income tax payers would be based on federal taxable income. Taxpayers would make adjustments to federal taxable income for interest income on obligations of the U.S. government, railroad retirement, and exempt tribal income to arrive at adjusted

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federal taxable income. Adjusted federal taxable income would then be applied to the new rate tables provided for in the bill to arrive at state tax liability.

3. The rate tables provided for in the bill result in a reduction in liability of \$973,000 for tax year 2000. This reduction is fully reflected in fiscal year 2001.

Tax Credits/Deductions

1. The proposal eliminates several current law tax credits effective for tax year 2000. The impact of repealing these credits will be felt first in FY2001. The following table shows the tax credits being repealed and the estimated FY2001 impact:

MCA	Corporation License Tax Credit Description	Tax Expenditure
15-31-123	Investment Tax Credit	\$ 20,000
15-31-132	Disability Insurance for Uninsured Credit	5,400
15-31-135	College Contribution Credit	9,000
15-31-137	Alternative Fuel Motor Vehicle Conversion Credit	10,000
15-32-107	Interest Differential Credit	10,000
15-32-602	Recycling Credit	91,500
15-32-609	Tax Deduction for Purchase of Recycled Material	175,000
90-8-202	Montana Capital Company Credit	160,000
	Total Corporation License Tax Credits	\$ 480,900
MCA	Individual Income Tax Credit Description	Tax Expenditure
15-30-129	Credit for Disability Insurance	\$ 20,000
15-30-162	Investment Tax Credit	40,000
15-30-163	Credit for Contribution to University or College	110,000
15-30-164	Credit for Alternative Fuel Motor Vehicle Convers.	6,700
15-30-180	Credit for Preservation of Historic Building	unknown
15-32-109	Credit for Energy Conserving Investments	120,000
15-32-115	Credit for Geothermal Systems	40,000
15-32-201	Credit for Alternative Energy Systems	0
15-32-402	Wind Energy Producers' Credit	4,800
15-32-601	Credit for Recycling	100,000
90-8-202	Montana Capital Company Credit	130,000
	Total Individual Income Tax Credits	\$ 571,500
	Total All Credits	\$ 1,052,400

2. Under the proposal, corporation license tax collections will increase by \$480,900 and individual income tax collections will increase by \$571,500 for a total increase in general fund collections of \$1,052,400 in FY2001.

Property Tax Impacts

1. The proposal repeals sections MCA, 15-24-1401 and 1402. These sections provide a local-option property tax abatement for "new and expanding industry".

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2. Under current law, the total tax expenditure associated with this abatement is \$2,500,000 in fiscal years 2000 and 2001.
3. Under the current abatement, 84% of all property receiving the abatement is business equipment, while the remaining 16% is real property. Under current law, approximately 38% of the business equipment receiving the abatement is personal property not liened to real property, and pays property taxes in the spring of each year.
4. Property taxes on property receiving this abatement are distributed 26.95% to the state general fund; 1.70% to the university systems; 18.76% to county governments; 3.64% to cities and towns; and 48.95% to local school districts.
5. The FY2000 impact from the property tax provisions of this proposal is to increase property taxes received by taxing jurisdictions by a total of \$798,000 ($\$2,500,000 \times 0.84 \times 0.38 = \$798,000$) distributed \$215,049 to the state general fund; \$13,582 to the university system; \$149,728 to county governments; \$29,026 to cities and towns; and \$390,615 to local school districts.
6. The FY2001 impact from the property tax provisions of this proposal is to increase property taxes by \$2,500,000 distributed \$673,711 to the state general fund; \$42,550 to the university system; \$469,072 to county governments; \$90,935 to cities and towns; and \$1,223,732 to local school districts.

Administrative Impacts

1. There will be one-time administrative expenses associated with reconfiguring the individual income tax computer system to conform to the new format of tying to federal taxable income. The department intends to replace its existing individual income tax system, and, therefore, will make only those modifications minimally required to implement this legislation. These one-time costs to modify the system are estimated to be \$175,000 in FY2000.
2. The department will have administrative savings of \$193,000 in FY2001. This is due to elimination of the current long and short form tax returns; having to process fewer income tax returns; reduced mail handling; reduced data entry exceptions; reduced computer storage costs; and lowered cost of processing refunds. These ongoing cost reductions reflect reductions in internal contracted services. There are no anticipated cost savings in the audit program of the agency.

FISCAL IMPACT:

	<u>FY2000 Difference</u>	<u>FY2001 Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$175,000	(\$193,000)
<u>Funding:</u>		
General Fund (01)	175,000	(193,000)
<u>Revenues:</u>		
General Fund (01)	215,049	753,111
State Special Revenue (02)	13,582	42,550
<u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$40,049	\$946,111
State Special Revenue (02)	13,582	42,550

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Due to eliminating the local-option property tax incentive for new and expanding industries, property tax revenue in FY2000 would increase \$149,728 for county governments; \$29,026 for cities and towns; and \$390,615 for local schools. Revenue in FY2001 would increase \$469,072 for county governments; \$90,935 for cities and towns; and \$1,223,732 for local schools.

LONG-RANGE IMPACTS:

The on-going administrative savings would carry on in future years; the property tax revenue increases to local governments would continue in future years.